

General Information Letter: Distribution of IRA and profit-sharing accounts to estate.

June 3, 1998

Dear:

This is in response to your message to the Department's Betty Wankel (received by facsimile) May 12, 1998, which was referred to me for reply, in which you request advice on behalf of a client. Department of Revenue ("Department") regulations require that the Department issue only two types of letter rulings, Private Letter Rulings ("PLRs") and General Information Letters ("GILs"). For your general information we have enclosed a copy of 2 Ill. Adm. Code Part 1200 regarding rulings and other information issued by the Department.

Although you have not specifically requested either type of ruling, the nature of your question and the information provided require that we respond only with a GIL. GILs are designed to provide background information on specific topics, however, GILs are not rulings that are binding on the Department.

In your message, you have stated the following:

I am a CPA in Wisconsin. I have a client who is a resident of Illinois. He is in his twenties. His mother passed away in 1998. She had IRA's and a profit-sharing account. He is the sole beneficiary of both accounts.

My understanding of Illinois income tax law is that federally taxed pension distributions are not taxable in Illinois. Does this income tax law apply to the above distributions from his mother's Individual Retirement Accounts and profit-sharing?

The computation of an individual's taxable net income for Illinois Income Tax purposes begins with the individual's adjusted gross income reported for federal income tax purposes, modified by certain amounts specified by statute. IITA Sections 203(a)(1), 203(a)(2). Only those subtraction modifications expressly authorized by statute may be taken. IITA Section 203(h).

With respect to the IRA distribution, both individuals and estates are allowed a subtraction modification for amounts included in their federal adjusted gross income (for individuals) or federal taxable income (for estates) from federally tax-qualified pension plans under the provisions of, e.g., Internal Revenue Code Section 408, which provides for IRAs. IITA Sections 203(a)(2)(F) (individuals) and 203(c)(2)(H) (estates). In the case of an estate required to file a Form IL-1041 Illinois Fiduciary Income and Replacement Tax Return, the estate is required to report each beneficiary's share of the subtraction modifications allowed in IITA Section 203(c)(2) on Schedule D of the return and to notify each beneficiary of the amounts so reported.

Accordingly, the estate should have provided your client with the information necessary to claim a subtraction modification for the IRA

distribution. The subtraction modification should be claimed on Line 9 of the Form IL-1040, and a copy of the notification your client received from the estate should be attached to the Form IL-1040.

If the estate is not subject to Illinois income tax, your client may still claim a subtraction modification for his or her share of the IRA distribution. However, in order to claim the subtraction, your client must receive some form of notification of the IRA distribution from the estate, and attach a copy of such notification to the Form IL-1040.

The same principles apply with respect to federally tax-qualified profit-sharing plans

Sincerely,

Jackson E. Donley
Associate Counsel -- Income Tax